

**23 February 2018**


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## A weak week for the eurozone

- **Range of eurozone confidence indicators show weakness in February...**
- **...but it is too little to get concerned over**
- **Korean exports affected by Chinese New Year.**
- **US indicators looking good.**

Last year was characterised by strengthening global growth and lower than expected inflation. It proved an excellent combination for markets for risky assets. More recently, disappointing news on US inflation has caused financial markets to reassess the outlook. Recent days have seen some cracks appearing in the eurozone growth story. What's next?

### A sharp drop in Ifo expectations

The authoritative German Ifo index of business confidence fell from 117.6 in January to 115.4 in February. That is a big drop, even bearing in mind that the January reading was the highest in decades. Of the two main underlying components, expectations fell back significantly: 105.4 versus 108.3 previously. It was the third consecutive monthly drop of the expectations-component and it was the lowest reading since April this year.

#### Germany: Ifo



Source: Bloomberg

The Markit PMIs for the eurozone as a whole were also weaker in February, confirming the weaker Ifo index. Here, too, the decline in February was from an exceptionally high level, but still. The ZEW survey also showed weakening in February, both for Germany as well as the eurozone as a whole, as did the data on French business confidence of the French statistics office, INSEE. The odd one out was the index of business confidence in Belgium, which inched a little higher in February.

Eurozone consumer confidence was also a little weaker in February, though from the highest reading since the turn of the century.

### Not worried

The question is whether or not we should worry. I don't think so, at least for now. First, business confidence indices cannot rise forever. Second, the confidence indices were at or near record level and even at slightly lower levels they still indicate healthy overall growth. Third, I cannot see what should have caused a material slowing of eurozone growth. The only reasonable suspects are the appreciation of the euro and a slowing of world trade growth. While the currency has become more expensive, I don't think that there has been enough appreciation to cause a significant slowdown. As for world trade growth, that does not appear to be growing more slowly as far as I can measure.

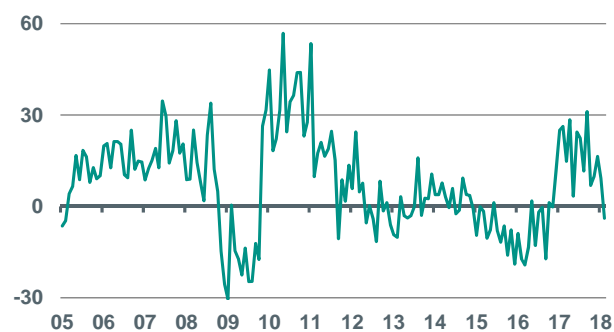
So although there is consistency in the various confidence indices, I still think this is most likely noise. The stock market wobble early in the month and perhaps Chinese New Year, falling in February this year against late January last year may have played a role.

### Korean exports hit by Chinese New Year

Weakness was also seen in the export data released by South Korea. Exports were down 3.9% yoy during the first 20 days of February after growing 9.2% in January. Chinese New Year is undoubtedly playing havoc with these numbers. So we will have to wait and see what happens in March to get a clearer picture of the trend.

#### South Korea: Exports

First 20 days, % yoy



Source: Bloomberg

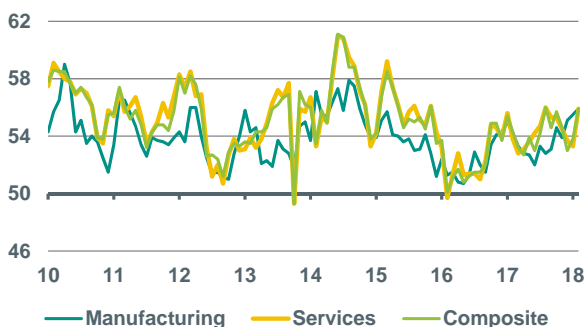
### US data stronger

US data was clearly better. The Markit PMI for manufacturing moved up from 55.5 in January to 55.9 in February, as did the services sector confidence index (55.9, up from 53.3)

Last, the US leading indicator has not attracted much attention in recent years, but it remains an excellent gauge for economic growth with a small lead time. The index rose 1.0% mom in January and the yoy growth rate accelerated to 6.2%, the highest since 2014. It suggests that growth momentum in the US is still on the rise.

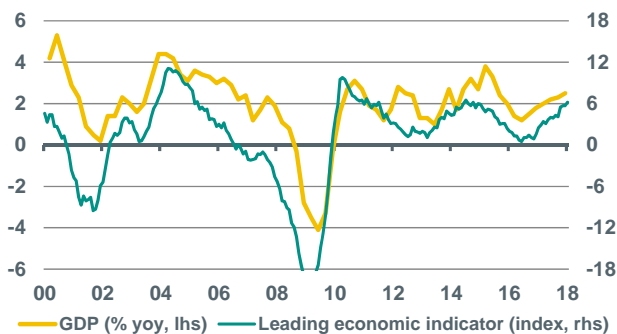
**US: Markit PMI**

Index, 50 = neutral



Source: Thomson Reuters Datastream

**US: GDP and Leading economic indicator**



Source: Bloomberg

**Fed minutes**

The minutes of the 31 January Fed Federal Open Market Committee were published last Wednesday. Equity markets did not like them very much. The Fed is getting more comfortable with the recovery and given the stimulus provided through the tax reform and the increase in public spending agreed in the two-year budget deal, the Fed is undoubtedly going to raise rates several times this year. We expect the next rate hike at the FOMC meeting on 21 March. Apart from the rate hike, the march meeting is interesting for several other reasons. First, it is the first meeting with Jerome Powell as chairman. Second, the FOMC members will provide an update of their economic and rate hike projections. At the December meeting, the mean for the expected number of rate hikes this year was three. The question is whether strengthening inflation data and the fiscal stimulus persuade the FOMC to raise their number of their projected number of rate hikes.

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## Main economic/financial forecasts

GDP growth (%)	2016	2017e	2018e	2019e	3M interbank rate	15/02/2018	22/02/2018	+3M	2018e	+12M	2019e
United States	2.3	2.3	3.0	2.7	United States	1.87	1.94	1.90	2.40	2.40	2.80
Eurozone	2.5	2.5	2.8	2.3	Eurozone	-0.33	-0.33	-0.33	-0.33	-0.33	-0.13
Japan	1.6	1.6	1.7	1.3	Japan	0.07	0.07	-0.10	-0.02	-0.10	-0.10
United Kingdom	1.7	1.7	1.4	1.7	United Kingdom	0.55	0.56	0.80	1.00	1.10	1.60
China	6.9	6.9	6.5	6.0							
World	3.2	3.7	3.9	3.7							
Inflation (%)	2016	2017e	2018e	2019e	10Y interest rate	15/02/2018	22/02/2018	+3M	2018e	+12M	2019e
United States	2.1	2.1	2.1	2.0	US Treasury	2.89	2.92	2.9	3.00	2.70	2.85
Eurozone	1.5	1.5	1.7	1.4	German Bund	0.76	0.71	0.8	0.90	0.70	1.20
Japan	0.5	0.5	1.0	0.8	Euro swap rate	1.17	1.14	0.9	1.10	1.10	1.25
United Kingdom	2.7	2.7	2.3	1.9	Japanese gov. bonds	0.06	0.05	0.0	0.00	0.00	0.20
China	1.6	1.6	2.5	2.5	UK gilts	1.65	1.55	1.4	1.50	1.50	1.80
World	3.0	3.1	3.4	3.1							
Key policy rate	22/02/2018	+3M	2018e	2019e	Currencies	15/02/2018	22/02/2018	+3M	2018e	+12M	2019e
Federal Reserve	1.50	2.00	2.25	2.75	EUR/USD	1.25	1.23	1.17	1.15	1.18	1.25
European Central Bank	-0.40	-0.40	-0.40	-0.20	USD/JPY	106.1	106.8	109	110	108	100
Bank of Japan	-0.10	0.00	0.00	0.00	GBP/USD	1.41	1.39	1.39	1.42	1.46	1.52
Bank of England	0.50	0.75	1.50	1.00	EUR/GBP	0.89	0.88	0.84	0.81	0.81	0.82
People's Bank of China	4.35	4.35	4.35	4.35	USD/CNY	6.35	6.36	6.60	6.50	6.70	6.70

Source: Thomson Reuters Datastream, ABN AMRO Group Economics.

## Key macro events 26 February – 2 March 2018

Day	Date	Time	Country	Market indicator	Period	Latest outcome	Expectation consensus	ABN AMRO
Monday	26/02/2018	10:30:00	GB	BBA mortgage approvals - units	Jan	36115		
Monday	26/02/2018	14:00:00	US	Fed's Bullard (non-voter) speaks on US economy & monetary policy				
Monday	26/02/2018	16:00:00	US	New homes sold - units	Jan	625k	647k	
Tuesday	27/02/2018	06:30:00	NL	Producer confidence manufacturing - index	Feb	10.3		9.5
Tuesday	27/02/2018	10:00:00	EC	M3 growth - % yoy	Jan	4.6		
Tuesday	27/02/2018	11:00:00	EC	Consumer confidence - index	Feb F	0.1	0.1	
Tuesday	27/02/2018	11:00:00	EC	Economic sentiment monitor - index	Feb	114.7	114.0	113.8
Tuesday	27/02/2018	14:00:00	DE	HICP inflation- % yoy	Feb P	1.4	1.3	1.4
Tuesday	27/02/2018	14:00:00	HU	Base rate -%	Feb 27	0.9	0.9	
Tuesday	27/02/2018	14:30:00	US	Advance Goods Trade Balance - bn	Jan	-71.6	-72.0	
Tuesday	27/02/2018	14:30:00	US	New durable goods orders - % mom	Jan P	2.8	-2.3	-2.0
Tuesday	27/02/2018	14:30:00	US	New durable goods orders (ex-transport) - % mom	Jan P	0.7	0.2	0.5
Tuesday	27/02/2018	15:00:00	US	S&P/Case Shiller house price index	Dec	0.8		
Tuesday	27/02/2018	15:00:00	US	FHFA house price index - % mom	Dec	0.4	0.4	
Tuesday	27/02/2018	16:00:00	US	Conference Board cons. confidence - index	Feb	125.4	125.7	
Tuesday	27/02/2018		KR	Policy rate - %	Feb 27	1.5	1.5	1.5
Wednesday	28/02/2018	00:50:00	JP	Industrial production - % mom	Jan P	2.9	-4.0	
Wednesday	28/02/2018	02:00:00	CN	PMI manufacturing - index (official)	Feb	51.3	51.2	
Wednesday	28/02/2018	02:00:00	CN	PMI non-manufacturing - index (official)	Feb	55.3		
Wednesday	28/02/2018		GB	GfK Consumer confidence - index	Feb	-9.0	-10.0	
Wednesday	28/02/2018	09:00:00	CH	Leading economic indicator - index	Feb	106.9		
Wednesday	28/02/2018	09:30:00	SE	GDP - % qoq	4Q	0.8		
Wednesday	28/02/2018	09:55:00	DE	Unemployment - %	Feb	5.4	5.4	
Wednesday	28/02/2018	11:00:00	EC	CPI - % yoy	Feb	1.3	1.3	1.2
Wednesday	28/02/2018	11:00:00	EC	CPI Core - % yoy	Feb	1.0	1.0	1.0
Wednesday	28/02/2018	13:00:00	IN	GDP - % yoy	4Q	6.3		7.5
Wednesday	28/02/2018	14:30:00	US	GDP - % qoq annualised	4Q S	2.6	2.6	3.0
Wednesday	28/02/2018	15:45:00	US	Chicago PMI - index	Feb	65.7	64.0	
Wednesday	28/02/2018	16:00:00	US	Pending home sales - % mom	Jan	0.5	0.5	
Wednesday	28/02/2018	16:00:00	US	Fed Chair Powell Semi-annual Testimony to Congress				
Wednesday	28/02/2018		GB	Nationwide house prices - % mom	Feb	0.6		
Thursday	01/03/2018	00:50:00	JP	Capital investment excl software - % yoy	4Q	4.3	1.9	
Thursday	01/03/2018	02:45:00	CN	PMI manufacturing - index (Caixin)	Feb	51.5	51.3	
Thursday	01/03/2018	07:45:00	CH	GDP - % qoq	4Q	0.6		
Thursday	01/03/2018	09:00:00	NL	PMI manufacturing - index	Feb	62.5		61.8
Thursday	01/03/2018	10:00:00	EC	PMI manufacturing - index	Feb F	58.5	58.5	
Thursday	01/03/2018	10:30:00	GB	PMI manufacturing - index	Feb	55.3	55.1	
Thursday	01/03/2018	11:00:00	EC	Unemployment - %	Jan	8.7	8.6	8.6
Thursday	01/03/2018	14:30:00	US	Consumer spending - % mom	Jan	0.4	0.2	
Thursday	01/03/2018	14:30:00	US	Consumer income - % mom	Jan	0.4	0.2	
Thursday	01/03/2018	14:30:00	US	Core PCE - % mom	Jan	0.2	0.3	0.3
Thursday	01/03/2018	15:45:00	US	Markit - Flash PMI	Feb F	55.9		
Thursday	01/03/2018	16:00:00	US	ISM manufacturing - index	Feb	59.1	58.6	59.0
Thursday	01/03/2018	16:00:00	US	Construction spending - % mom	Jan	0.7	0.0	
Thursday	01/03/2018		US	Auto sales total - millions annualised	Feb	17.1	17.2	
Friday	02/03/2018	00:30:00	JP	Unemployment - %	Jan	2.8	2.7	
Friday	02/03/2018	10:30:00	GB	UK Construction PMI	Feb	50.2		
Friday	02/03/2018	11:00:00	EU	PPI - % yoy	Jan	2.2	1.6	
Friday	02/03/2018	11:00:00	EU	PPI - % mom	Jan	0.2	0.5	
Friday	02/03/2018	14:30:00	CA	GDP - % yoy	Dec	3.5		
Friday	02/03/2018	16:00:00	US	Univ. of Michigan cons. confidence - index (Final)	Feb F	99.9	97.9	

Source: Bloomberg, Reuters, ABN AMRO Group Economics (we provide own forecasts only for selected key variables and events)